China's 'New Deal' for railroads, energy

Since the conclusion of the first session of the Ninth National People's Congress in Beijing last month, Chinese publications have been featuring the nation's ambitious "New Deal" policy for infrastructure development—modelled on that of President Franklin Delano Roosevelt—under conditions of financial crisis throughout the rest of Asia.

"Funds Sought for 'New Deal' " was a headline in the *China Daily*'s business weekly of March 29. The article discusses the proposals being made by Chinese economists to ensure that the national program of investing the equivalent of $1 trillion in infrastructure and high-technology industry, can be realized. The *China Daily* quotes one economist saying that "China has to maintain 15% growth in fixed asset investment in order to secure the planned 8% GDP growth."

Then, the proposals of another economist, Qin Chijiang, on how to finance this investment, are reviewed. He states that money is not a problem, but there are many obstacles hampering investment, and the old system must be reformed. Investment in infrastructure will not yield immediate profits, he said, but promises huge long-term returns, while avoiding steep ups and downs in the economy. Among his proposals are:

- Long-term government bonds guaranteed by the Ministry of Finance should be issued for the purpose of infrastructure construction. These bonds would not be included in the national deficit.
- A share-holding system should be adopted in some projects, to pool regional resources.
- Banks should increase the proportion of long- and medium-term loans. China should also open wider to foreign investment, he said.

In *China Daily* of March 30, a prominent economist wrote that China must "learn lessons from the Asian crisis," including by expanding the physical economy. Among the problems on which China must focus, he wrote, are the following:

- The government should avoid being too closely and frequently involved in business activities; market-based relations must be established between banks and enterprises; and, the government should not be too closely involved in creating or supporting huge industrial conglomerates;
- The government should help the state-owned commercial banks cut their bad assets as soon as possible;
- "The country should focus on promoting material economy, technological renovation, consummation of industrial makeup, and enhancement of labor productivity";
- Foreign investment must be focussed on longer-term, foreign direct investment;
- China must strenghten regulation over the financial sector, especially "trading in derivatives and new banking services like offshore finances to fight its ability to fight foreign speculative activities."

The article also emphasized the importance of the population's confidence in its government's policies: "Even if a financial crisis breaks out, the non-existence of public pessimism will prevent the situation from further worsening."

Specific projects

China is considering doubling the level of investment in railroad construction over the next three years, to deal with rising unemployment, the growing economic gap between rich and poor areas, and also to absorb the "overcapacity" in China's steel production, which is the largest in the world, the *China Daily*'s business weekly reported on March 29. The Ninth Five-Year Plan had already allocated $21.6 billion for rail construction, but this amount could be doubled.

But, in the current situation, there is a shortage of $30 billion in capital for this investment. Also, with the reform of the state-owned commercial banks, they will not be able to extend so much credit. The State Planning Commission has proposed that the State Development Bank expand its lending for rail construction in the central and western regions of China. Railway investors in these regions should get land-use rights free of charge along rail lines, and beneficial tax exemption policies, the *China Daily* noted. Also, freight costs should be raised to increase funds, even at the risk of some inflation, and bond issues and stock listings should continue to be used to expand the transport network. Foreign investment is also now allowed in the main rail trunk lines, but the Chinese side will continue to hold majority stakes in construction, the article reported.

The same newspaper reported that nuclear companies from the United States, France, Japan, and, to a much lesser degree, Russia and Canada, are all vying to get into the Chinese nuclear energy market. Since the United States lifted its ban on exporting nuclear technology to China, all the Western producers want to sell technology to China. However, China has let it be known that it will give top priority to "localization," including training local engineers, and will require foreign partners to transfer "mature, safe, and advanced technology" to China.

Howard Bruschi, vice president of Westinghouse's science and technology department, has promised to help China grow into an exporter of nuclear power.

China is expected to announce one or two new nuclear power projects this year.